Aetna's $640 Million CEO Is Overpaid By $440 Million

Dec. 20, 2017 12:19 PM ET 4 comments
by: Stephen O'Byrne

Summary

- When CVS buys Aetna at $207 per share, Aetna CEO Mark Bertolini’s ten year compensation will reach $640 million.

- Fair pay for company size, industry, relative TSR and pay risk is only $200 million.

- Aetna’s board subscribes to the principle that relative pay should track relative performance but approved a compensation plan that provides huge rewards for industry average performance.

Aetna (NYSE:AET) CEO Mark Bertolini joined Aetna in 2003 as the head of its Specialty Products unit. He was named President in 2007 and CEO in 2010. Our analysis looks at pay and performance for the ten years that Bertolini was President or CEO.

To assess Bertolini’s pay, we calculate his actual pay and then compare it with market pay adjusted for Aetna’s relative TSR and Bertolini’s pay risk. His actual pay is cumulative “mark to market” (or “realizable”) pay, a total of $636 million at the acquisition price of $207. Cumulative market pay is $115 million, so Bertolini’s actual pay is 553% of market pay. His actual pay will be fair pay if an appropriate adjustment for relative TSR and pay risk is 5.53x.

Aetna’s ten year relative TSR, including the full acquisition premium, is +31% measured against S&P 1500 companies in Aetna’s GICS industry, Health Care Providers & Services (351020). This, by itself, suggests a relative TSR adjustment of 1.31x. But Bertolini’s historical “pay leverage”, our measure of pay risk, is 2.0. This means that a 1% increase in relative shareholder wealth has increased Bertolini’s relative pay, on average, by 2%, giving him pay leverage of 2.0 (= 2%/1%). This pay leverage doubles the impact of Aetna’s relative TSR, giving us a second adjustment of 1.31x, but the product of these two adjustments is only 1.72x, far less than Bertolini’s market pay multiple of 5.53x.

Translating this into dollars:

Excess pay = actual pay – market pay x (1 + relative TSR)^ pay leverage
Excess pay = $636 million - $115 million \times (1 + 31\%)^2 = $636 million - $197 million = $439 million

If Bertolini had average CEO pay leverage of 0.5, his excess pay would be $504 million = $636 million - $115 million \times (1 + 31\%)^{0.5}. With pay leverage of 2, Bertolini needs an excess return of 135\% to justify a market pay multiple of 5.53.[1]

There are companies where 2007-2016 relative TSR and pay leverage warrant market pay multiples of 5.5x or more. They include Apple (NASDAQ:AAPL), Charter Communications (NASDAQ:CHTR), MasterCard (NYSE:MA), AutoZone (NYSE:AZO), Netflix (NASDAQ:NFLX) and Salesforce.com (NYSE:CRM), but they don’t include Aetna.

The following sections of this article cover the supporting calculations for excess pay, the pay design that is needed to link relative pay and relative performance, the shortcomings of Aetna’s pay design, the weak financial incentives of Aetna board members to control executive pay and the failure of Say on Pay voters to spot and vote against high levels of excess pay. In our discussion of pay design, we’ll show that the formula used above, i.e., fair pay = market pay \times (1 + relative TSR)^{pay leverage}, provides a perfect correlation of relative pay and relative TSR and can be achieved with a simple pay plan using annual grants of performance shares. A broader view of Pay for Performance at S&P 1500 Companies is available in an earlier Seeking Alpha paper.

**The Supporting Calculations For Excess Pay Of $440 Million**

Table 1 shows that value of Bertolini’s 2016 year end stock and option holdings valued at the acquisition price of $207. The table excludes two option grants with 2017 expiration dates that Bertolini has exercised in 2017. The $498 million total shown on this table is consistent with the recent Wall Street Journal story “Aetna’s Outgoing CEO Set to Reap About $500 Million if CVS Deal Closes”. [2]

Table 1: The Value of Bertolini’s 2016 Holdings at the Acquisition Price
Table 1 materially understates Bertolini’s total compensation for the ten years 2007-2016 because it excludes cumulative salary, bonus and “other” compensation of $27 million, his previously vested restricted and performance shares and the shares acquired from his 2017 option exercises. Some of these shares are included in Table 1, but the value of the additional shares, at the acquisition price of $207, is $198 million. We include in Bertolini’s total compensation the estimated value of the additional shares at the time of vesting, which we estimate to be $112 million, as shown in Table 2. Bertolini’s total mark to market compensation is $636 million = $498 million holding value (Table 1) + $27 million cash pay (Table 2) + $112 million (value at vesting of shares not included in Table 1).

Table 2: Additional Compensation

<table>
<thead>
<tr>
<th>Holding/Award Type</th>
<th>Grant Year</th>
<th>Shares</th>
<th>Exercise Price</th>
<th>Acquisition Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td></td>
<td>925,317</td>
<td>0</td>
<td>191,540,619</td>
</tr>
<tr>
<td>RSUs</td>
<td></td>
<td>135,979</td>
<td>0</td>
<td>28,147,653</td>
</tr>
<tr>
<td>PSUs</td>
<td></td>
<td>141,158</td>
<td>0</td>
<td>29,219,706</td>
</tr>
<tr>
<td>Options 2008</td>
<td></td>
<td>197,897</td>
<td>50.70</td>
<td>30,931,301</td>
</tr>
<tr>
<td>Options 2009</td>
<td></td>
<td>299,751</td>
<td>32.11</td>
<td>52,423,452</td>
</tr>
<tr>
<td>Options 2013</td>
<td></td>
<td>500,000</td>
<td>64.25</td>
<td>71,375,000</td>
</tr>
<tr>
<td>Options 2014</td>
<td></td>
<td>304,626</td>
<td>72.26</td>
<td>41,045,307</td>
</tr>
<tr>
<td>Options 2015</td>
<td></td>
<td>253,480</td>
<td>100.50</td>
<td>26,995,620</td>
</tr>
<tr>
<td>Options 2016</td>
<td></td>
<td>253,242</td>
<td>103.45</td>
<td>26,223,209</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>497,901,868</strong></td>
</tr>
</tbody>
</table>

Source: Shareholder Value Advisors
Table 3 shows our estimates of market rates, adjusted for CPI inflation to the end of 2016. Our market rates represent average grant date pay for position, industry and company revenue size. Our market rate for Bertolini in his first year as President, 2007, is $6.1 million and our market rate for him in his first year as CEO, 2011, is $11.4 million. We adjust our market rates for changes in position, but not for changes in company sales. We don’t adjust for changes in company sales because sales growth is only valuable to shareholders to the extent it leads to excess returns.

Table 3: Future Value of Cumulative Market Pay

<table>
<thead>
<tr>
<th>Description</th>
<th>Ten Year Cash Pay (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>$9,647</td>
</tr>
<tr>
<td>Other</td>
<td>2,360</td>
</tr>
<tr>
<td>Bonus</td>
<td>11,687</td>
</tr>
<tr>
<td>Long-term performance cash</td>
<td>3,120</td>
</tr>
<tr>
<td>Additional cash compensation</td>
<td>$26,814</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Shares (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted shares granted</td>
<td>444</td>
</tr>
<tr>
<td>Performance shares granted</td>
<td>1,546</td>
</tr>
<tr>
<td>Net shares from exercise of 2007 option grants</td>
<td>299</td>
</tr>
<tr>
<td>Less: shares included in Table 1</td>
<td>(1,202)</td>
</tr>
<tr>
<td>Less: shares held at FYE 2006</td>
<td>(112)</td>
</tr>
<tr>
<td>Additional shares not reflected in Table 1</td>
<td>975</td>
</tr>
<tr>
<td>Maximum value ($000) of additional shares (at $207)</td>
<td>$201,927</td>
</tr>
<tr>
<td>SVA estimate of value ($000) of additional shares at vesting</td>
<td>$111,747</td>
</tr>
</tbody>
</table>

Source: Shareholder Value Advisors
Our market rates are based on a regression analysis that relates ln pay to ln sales. Regression adjustments for size provide more accurate market rate estimates than simple means or medians and have been used in executive pay surveys since the 1950s. Aetna itself uses regression analysis. In its 2017 proxy, Aetna notes that “the data presented to the Compensation Committee includes a regression analysis (market compensation data adjusted to account for company size based on revenue) where available”. In our broader pay for performance studies, we do a separate regression for each of the 68 GICS industries. We structure the regression so that the sensitivity of pay to sales is constant for all top 5 positions and for all years.[3] For Aetna’s industry, Health Care Providers & Services (GICS 351020), the slope of the trendline is 0.39. This implies that a doubling in revenue increases pay by 31%.[4]

Our market rates are consistent with Aetna’s market rate estimates. In its 2017 proxy, Aetna says that “Mr. Bertolini’s 2016 total direct compensation opportunity, $17.3 million at target, was the 75th percentile of the chief executive officer pay of the comparison group we use to assess compensation.” If we adjust our market rate of $11.394 million for Aetna’s sales growth from 2011 to 2016, we get a market rate of $14.2 million.[5] Adding a 22% premium for 75th percentile pay gets us to Aetna’s number.
Since market rates are competitive grant date pay, they reflect equity compensation on a present value basis. To provide a fair comparison with mark to market pay, we need to convert cumulative market pay from present value to expected future value. Our adjustment factor, 24% for ten year cumulative market pay, is based on a multi-industry regression that relates mark to market pay to cumulative grant date pay to estimate the future value premium as a function of time horizon. Since the average year ten “age” of annual pay over a ten year period is only 5.5 years, our adjustment factor works out to 4.0% a year for each outstanding pay year.[6] This annualized adjustment factor is smaller than the values commonly used for expected equity returns (e.g., 8%) for three reasons: cumulative market pay is already inflation adjusted, a significant portion of pay is paid in cash and equity compensation typically vests in three to five years.

Aetna’s stock price has risen from $43.18 at the end of December 2006 to $180.18 at the end of November 2017, an increase of 317%. When we include dividends, the shareholder total return is 356%. When we adjust for inflation, the real return is 276%. At the acquisition price of $207, the real return since December 2006 is 332%. Over the same period, the portfolio real return of S&P 1500 companies in Aetna’s GICS industry, Health Care Providers & Services (351020), is 166% and the portfolio real return of S&P 1500 companies in Aetna’s GICS sub-industry, Managed Health Care (35102030), is 272%.

A company’s excess return for a month or other period is its actual return minus its expected return based on industry performance. A company’s expected return depends on its “industry beta” which measures the sensitivity of the company’s stock return to the industry return. An industry beta of 1.0 means that a 1% increase in the value of the industry portfolio increases the company’s stock value by 1%. An industry beta of 0 means that a 1% increase in the value of the industry portfolio has no effect on the company’s stock value. We calculate a company’s industry beta with a regression that relates company monthly returns to industry monthly returns over a ten year period. Figure 1, the industry beta regression for Aetna, shows that the GICS industry return explains 59% of the variation in Aetna’s monthly returns over the ten years 2007-2016. The equation of the trendline is Aetna monthly return = .002 + 1.25 x industry return. Aetna’s industry beta of 1.25 means that a 1% change in industry portfolio value is associated, on average, with a 1.25% change in Aetna stock value.

Figure 1
The industry beta regression splits each monthly return into three pieces: a return that’s independent of industry performance (the intercept), an industry based return (beta x industry return) and an error term. Since the error terms have a mean of zero, we focus on the other two components. We calculate a market cap weighted average of the intercepts for all S&P 1500 companies in the industry to get the industry average return that’s unrelated to industry performance. We call this the “zero beta return”. We calculate each company’s expected return by taking a weighted average of the industry return and the zero beta return where the weight on the industry return is the company’s industry beta and the weight on the zero beta return is (1 – industry beta). We use a geometric average because it’s more consistent with our use of ln relative TSR in our pay for performance analyses. The ln expected return can be expressed as ln zero beta return + industry beta x (ln industry return – ln zero beta return). This expression shows that the expected return based on industry performance is analogous to the Capital Asset Pricing Model expected return based on market performance, i.e., CAPM expected return = risk-free rate + market beta x (market return – risk-free rate).

Adjusting for industry beta provides more robust estimates of relative TSR. The industry beta makes relative TSR less sensitive to peer group choice because differences in industry beta typically offset differences in peer group returns. Table 4 shows that Aetna’s relative TSR is 30.7% when we use its GICS industry, Health Care Providers & Services (GICS 351020), as its peer group and 24.3% when we use its GICS sub-industry, Managed Health Care (GICS 35102030), as its peer group even though the industry return of 166% is far less than the sub-industry return of 272%. The impact of the higher sub-industry return is largely offset by Aetna’s lower industry beta vs the sub-industry. We
use GICS industry rather than GICS sub-industry for our pay for performance analyses generally because industry level analysis leads to fewer small sample anomalies without any material loss of statistical validity.\[7\]

Table 4: Calculation of Aetna’s Ten Year Relative TSR

<table>
<thead>
<tr>
<th></th>
<th>Ten Year Inflation Adjusted Return</th>
<th>Beta Adjusted Industry Beta</th>
<th>Aetna Ten Year Relative Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aetna</td>
<td>332%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Care Providers &amp; Services (GICS 351020)</td>
<td>166%</td>
<td>1.25</td>
<td>230%</td>
</tr>
<tr>
<td>Managed Health Care (GICS 35102030)</td>
<td>272%</td>
<td>0.94</td>
<td>247%</td>
</tr>
<tr>
<td>Zero beta return</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The beta adjusted expected return is the weighted geometric mean:

\[
\left(\left(1 + \text{industry return}\right)^{\text{industry beta}} \times \left(1 + \text{zero return}\right)^{\left(1 - \text{industry beta}\right)}\right) - 1
\]

The relative return is \[
\left(\frac{1 + \text{Aetna return}}{1 + \text{beta adjusted expected return}}\right) - 1
\]

Source: Shareholder Value Advisors

We estimate Bertolini’s historical pay leverage for the years 2007-2016 by plotting ln relative pay on the vertical axis against ln (1 + relative TSR) on the horizontal axis, as shown in Figure 2. Pay leverage, 1.96, is the slope of the regression trendline. Each plot point in Figure 2 is ln cumulative relative pay and ln cumulative relative performance measured from the start of 2007. Figure 3 shows ln cumulative relative pay and ln cumulative relative performance as a time series. We use cumulative pay and performance because our goal is to measure the sensitivity of cumulative relative pay to cumulative relative performance. We use ln relative pay and ln relative performance so the slope of the trendline, which is pay leverage, is the percentage change in relative pay associated with a 1% change in relative shareholder wealth.
We calculate pay leverage excluding 2008. Including this outlier year reduces pay leverage from 1.96 to 0.90. We also calculate pay leverage assuming that the CVS (NYSE:CVS) acquisition occurs at the end of 2016.[8] Taking account of the acquisition increases pay leverage from 1.31 to 1.96. The equation of the trendline in Figure 2 is \( \ln \text{relative pay} = 0.85 + 1.96 \times \ln (1 + \text{relative TSR}) \), with alignment (r-sq) of 38%. The constant, or intercept term, is the \( \ln \) pay premium at industry average performance. The \( \ln \) premium of 0.85 corresponds to a percentage premium of 134%. [9] The scatterplot shows that cumulative pay in 2016 is above the trendline. When we add the 2016 \( \ln \) pay premium over the trendline of 0.33, we get a total \( \ln \) pay premium of 1.18 which corresponds to a percentage premium of 225%. This is the percent difference between Bertolini’s actual pay of $636 million and his fair pay for company size, industry, performance and pay risk of $197 million.

To summarize, adjusting Bertolini’s cumulative market pay of $115 million for relative TSR of 31% and pay leverage of 2.0 gets us to fair pay of only $197 million, leaving excess pay of $439 million.
Excess pay = $439 million = actual pay – market pay \( \times (1 + \text{relative TSR}) \)^{\text{pay leverage}}

Excess pay = $439 million = $636 million - $115 million \( \times (1 + 31\%) \)^2 = $636 million - $197 million

The Pay Design That's Needed To Link Relative Pay And Relative Performance

The pay for performance analysis in Figure 2 is particularly useful because it leads to the concept of a “perfect” pay plan. A pay plan is “perfect” if all the points in the pay for performance analysis fall on a straight line with a slope of 1.0 and an intercept of 0. There is a simple “perfect” pay plan that just uses annual grants of performance shares. In this plan, target pay is equal to market pay adjusted for trailing relative performance, i.e.,

\[ \text{target pay} = \text{market pay} \times (1 + \text{relative TSR}). \]

The number of performance shares granted is equal to target pay/stock price. The vesting multiple is equal to 1/(1 + post grant industry TSR). All non-performance pay and other cash paid out prior to retirement is treated as a draw against the value of the performance shares. This “perfect” pay plan can be adapted to any desired pay leverage by using slightly more complicated formulas for target pay and the vesting multiple.[10] Under the “perfect” pay plan, cumulative realizable pay is always exactly to cumulative market pay \( \times (1 + \text{relative TSR}) \)^{\text{pay leverage}}. In other words, the “perfect” pay plan builds in the fair pay formula we used to assess Bertolini’s pay.

When do the Figure 2 pay for performance analysis for all S&P 1500 CEOs, we find that 63% of companies have alignment (r-sq) below 50% and 24% have pay premium at peer group average performance of 50%+. The differences between the perfect performance share plan and conventional pay practices help us understand why the alignment of relative CEO pay and relative performance in S&P 1500 companies is so low. First, managers under the perfect pay plan are not entitled to market compensation regardless of past performance. The concept of competitive pay regardless of past performance is replaced by the concept of competitive pay for average performance. Second, managers are not paid for industry performance. Some conventional equity plans, such as stock options and restricted stock grants, tie vesting solely to service, so managers receive 100% of any stock appreciation due to industry performance. Other equity plans, such as performance share plans, tie vesting to relative performance, but typically vest the entire stock value as long as the vesting threshold is satisfied. This means that acceptable relative performance entitles the manager to the industry component of the stock return. Third, all cash realized prior to retirement is treated as a draw against the ultimate value of the performance shares. Conventional equity plan design requires vesting periods before
equity grants can be cashed out, but doesn’t ask whether the value of undistributed equity is sufficient to warrant the cash payout, i.e., is the undistributed equity value large enough to re-coup any decline in the value of cashed out shares and maintain the target relationship between cumulative pay and cumulative performance?

There are two other perfect pay plans that have the same underlying structure as our “perfect” performance share plan. One is the Dynamic CEO Compensation plan developed by finance professors Alex Edmans (of London Business School) and Xavier Gabaix (of Harvard). The other is the perfect investment management fee structure developed by Don Raymond, then the Chief Investment Strategist of Canada Pension Plan.

The Shortcomings Of The Aetna Pay Design

The low alignment and high cost of CEO pay at Aetna is primarily due to Aetna’s failure to use vesting to take out the industry component of the stock return. Aetna says that relative pay should track relative performance. For example, in its 2017 proxy, it says that “our compensation program is generally designed to deliver above-median total compensation for above-median performance and below-median total compensation for below-median performance.” Similarly, in its August 2013 8-K explaining its special “performance-based retention award” to Bertolini, it says that the award was designed to “reinforce the Company’s pay for performance philosophy through the application of rigorous performance-based vesting terms…the performance metric for the PSARs measures the Company’s total shareholder return relative to a defined group of seven Company peers”.

Despite these good intentions, the pay plans approved by the Aetna board allowed huge compensation for stock price increases that were largely due to industry factors. Figure 4 shows shareholder wealth indices for Aetna and the Health Care Providers & Services industry for 2007-2016. The Figure shows that Aetna experienced enormous stock prices increases that closely tracked industry stock prices increases.

Figure 4
The Aetna board granted Bertolini almost 1.8 million option shares with no performance conditions. The rationale given for options without performance conditions (or indexed exercise prices) is weak: “the award has no value if the stock price declines after the award is granted. Because SARS have a 10-year term, this design supports our long-term strategy and emphasizes the creation of long-term shareholder value.” While the special performance-retention SAR in 2013 had a relative TSR performance condition, which resulted in vesting of 500,000 and forfeiture of 200,000 shares, the performance condition was only tested at three years and, hence, allowed full sharing in the industry component of the stock return after three years.

Filtering out industry effects is an especially important responsibility for the Aetna board because industry effects in health care are so strong. Figure 1 shows that industry explains 59% of the variation in Aetna’s monthly returns over the ten years 2007-2016. Industry effects are much weaker for most companies with truly superior performance. Industry explains only 26% of monthly return variance for the median company in the group of 25 companies where relative TSR and pay leverage in 2007-2016 warrant realizable pay of 550%+ of cumulative market pay.

**Aetna Board Members Have Weak Financial Incentives To Control Pay**

The median Aetna director owns 8,724 shares, with a value of $1,081,863 at the 2016 year end stock price of $124.01, and receives annual director compensation of $333,369. Assuming an expected annual return of 8%, the median director has an annual expected stock return of $86,549. This means that 79% of the directors’ expected annual income
from Aetna is compensation for labor, not return to capital. An Aetna director, like most modern directors, is a more of a paid labor provider than a steward of substantial personal capital. Another way to highlight the modest importance of return to capital for Aetna director is to note that the annual directors’ fee makes up for the loss of the expected stock return for almost four years.

**The Failure Of Say On Pay Voters To Spot And Vote "No" On High Levels Of Excess Pay**

Aetna received a 93.7% positive Say on Pay vote in 2016. This is a typical result for public companies. Data from ISS shows that the average SOP approval rate for Russell 3000 companies increased from 90.7% in 2012 to 92.1% in 2017. These high approval rates suggest the voting guidelines used by the vast majority of institutional investors fail to capture alignment or performance adjusted cost.

A 2017 study of SOP voting by 213 funds confirms that voting is poorly correlated with measures of pay equity. In this to-be-published study, Mark Van Clieaf of Organizational Capital Partners and I analyzed 100-300+ votes for each fund to measure the sensitivity of the fund’s SOP voting to three measures of CEO pay equity: equity vs other members of the company’s top 5, equity vs relative TSR and equity vs relative ROIC. The measure of “inequity” vs relative TSR in this study is similar to our “excess pay” analysis for Bertolini: it’s the actual CEO pay premium over fair pay for size, industry and relative TSR assuming pay leverage of 1.0. We used each fund’s SOP votes to develop a custom pay equity measure for the fund, i.e., the weighting of the three pay equity measures that best explains the fund’s SOP voting.

Once we calculated a custom pay equity measure for each fund, we asked two questions: how much of the variance in fund’s SOP voting is explained by differences in pay equity? and how often does the fund vote “no” when actual pay is more than 100% greater than fair pay based on the fund’s custom measure of pay equity. We found that the fund’s custom pay equity measure explained less than 50% of the variation in the fund’s SOP voting for 68% of the 213 funds and that the median fund voted “no” on only 27% of the 100%+ pay premiums in its portfolio.

**Conclusion**

This paper highlights the need for investors to develop a more sophisticated analysis of executive pay and to engage with corporate directors when directors have approved pay plans that pay far above fair pay for company size, industry, relative TSR and pay risk. Our
analysis shows that Aetna CEO Mark Bertolini’s ten year compensation will reach $636 million when CVS acquires Aetna at $207 but that $636 million is $439 million more than fair pay for Bertolini’s company size, industry, relative TSR and pay risk.

Excess pay = $439 million = actual pay – market pay x (1 + relative TSR) ^ pay leverage

Excess pay = $439 million = $636 million - $115 million x (1 + 31%) ^ 2 = $636 million - $197 million

Investors need to do the spade work required to compare actual pay with fair pay for a company’s size, industry, relative TSR and pay leverage. That requires calculating mark to market (or realizable) pay, market rates for position, industry and company size, relative TSR adjusted for industry beta, and individual company pay leverage.

[1] (1 + 1.35)^2 = 5.53.

[2] The Wall Street Journal story notes that “shares of all major health insurers have done well over the period that Mr. Bertolini ran Aetna” but fails to pursue the analysis included in this paper.

[3] The form of the regression is ln(PAY) = mean ln(PAY) + slope x [ln(sales) – mean ln(sales)] where the mean values are calculated separately for each position/year. For example, there are CEO pay and sales means for 2007, #2 pay and sales means for 2007, etc. Since some of the GICS samples are small, we increase the reliability of the mean values by using five years of data for each year’s mean values. Thus, the CEO pay and sales means for 2007 are the mean values for 2003-2007, the CEO pay and sales means for 2008 are the mean values for 2004-2008, etc.

[4] Ln pay = constant + slope x ln sales implies pay = exp(constant) x sales^slope. A doubling in sales increases pay by a multiplicative factor of 2^slope. When the slope is 0.39, the multiplicative factor is 1.31; in other words, a 31% increase in pay.

[5] $14.2 million = $11.4 million x (63,155/36,099)^0.39.


[7] Across 42,260 ten year periods ending in 1996-2017 for S&P 1500 companies, the mean correlation with monthly industry return is 0.446, only slightly less than the mean correlation with monthly sub-industry return, 0.448.
[8] This was simpler than adding projected 2017 and calculating pay leverage with 11 observations.

[9] \( \exp(0.85) - 1 = 134\% \).

[10] Target pay = market pay \( x \) \((1 + \text{relative TSR})^\text{target pay leverage}\). The vesting multiple = \((1 + \text{TSR})^{\text{(target leverage - 1)}} \times 1/(1 + \text{industry TSR})^\text{target leverage}\).

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (4)

HanYOLO
Hey Aetna, a monkey could have managed the company exactly the same as Bertolini for how many tailwinds have been in place. What a farce paying this fool that amount of compensation but hey, great work if you can get it.

20 Dec 2017, 02:04 PM

SPEEDEECOBRA97
Who cares

20 Dec 2017, 02:14 PM

sekoval
considering he will have added 40 billion in market cap just since the beginning of 2017, probably worth it

20 Dec 2017, 05:17 PM

Rogier van Vlissingen, Contributor
The absurdity of the situation becomes only clearer at the macro level, vide David Stockman's latest rant (http://bit.ly/2p2R4Qh) on how our health care system is careening out of control and headed for becoming 30% of GDP instead of today's 20%. It remains absurd to think "value" can be created while making the Titanic go down faster. The whole merger with CVS is a rearguard action while the front of the train is already derailing.

21 Dec 2017, 07:44 AM